

**Supporting Statement for the
Report of Selected Balance Sheet Items for Discount Window Borrowers
(FR 2046; OMB No. 7100-0289)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Report of Selected Balance Sheet Items for Discount Window Borrowers (FR 2046; OMB No. 7100-0289). Data collected on this mandatory report are used to monitor discount window borrowing. The Federal Reserve's Regulation A, "Extensions of Credit by Federal Reserve Banks," requires that the Federal Reserve review balance sheet data in determining whether to extend credit and in ascertaining whether undue use is made of such credit. Borrowers report certain balance sheet data for a period that encompasses the dates of borrowing. The estimated annual burden for the FR 2046, which is event-generated, is 575 hours for 128 depository institutions. A copy of the reporting instructions with updated Call Report¹ references in the comparison tables is attached.

Background

The Federal Reserve's Regulation A establishes rules under which the Federal Reserve may extend credit to depository institutions and defines three basic lending programs: primary credit, secondary credit, and seasonal credit.² Primary credit is designed as a back-up funding source to assist depository institutions in meeting very short-term needs (usually overnight). Since such credit is provided at an above-market rate and ordinarily would be available to generally sound depository institutions, there is little or no administrative burden on the borrower or the Federal Reserve. Secondary credit is designed as a back-up funding source for depository institutions that do not qualify for primary credit. Such credit may be provided to meet temporary funding needs of an institution if such a credit extension would be consistent with the institution's timely return to a reliance on market funding sources, or if such credit would facilitate the orderly resolution of serious financial difficulties of the borrowing institution. Unlike primary credit borrowers, secondary credit borrowers are subject to administration by the Federal Reserve. In these cases, supplemental information for monitoring the borrower would likely be obtained from other sources, such as direct contacts with banking regulators. Seasonal credit is designed to assist smaller institutions in meeting longer-term funding needs arising from regular intra-year patterns in deposits and loans. Regulation A requires that the Federal Reserve ensure that the borrower's funding need is truly "seasonal" in nature and that it will persist for at least four weeks. Seasonal credit is provided at a market-related rate. Nonetheless, borrowers may still find the rate charged on seasonal credit attractive relative to the rates they would be charged for comparable credit arrangements from market sources. Therefore, while borrowing at the

1 Call Reports are the Consolidated Reports of Condition and Income (FFIEC 031 and 041; OMB No. 7100-0036), the Thrift Financial Report (OTS 1313; OMB No. 1550-0023), the Call Report (NCUA 5300; OMB No. 3133-0004), and the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032).

2 Regulation A was amended in 2003 to replace the adjustment and extended lending programs with new lending programs called primary and secondary credit, respectively. The third lending program, seasonal credit, received only minor revisions.

discount window, seasonal borrowers must agree to limit their net federal funds sales to an amount consistent with their usual operating pattern.³

In 1998, the Subcommittee on Credit, Reserves, and Risk Management (SCRRM) requested standardized data reporting for discount window monitoring as part of its broader effort to promote greater uniformity across the Federal Reserve System in the administration of the discount window.⁴ There had been considerable variation across Federal Reserve Districts in the specific data elements collected, in the time periods for which data were requested, and in the formats in which data were reported. The implementation of the FR 2046 standardized these aspects of data collection across the Federal Reserve System and, in many cases, reduced reporting burden relative to that under the previous data reporting procedures. In 2003, the FR 2046 was updated owing to changes to Regulation A (the establishment of the primary and secondary credit programs) with no substantial changes to the form or the instructions.

Justification

There are many cases in which discount window borrowing might be considered “inappropriate” and inconsistent with Regulation A. For example, using the primary or secondary credit programs as a primary funding source, or using seasonal credit to meet a non-seasonal funding need, would be considered inappropriate. To guard against such situations, Regulation A (12 CFR 201.3(c)(2)-(3)) requires the Federal Reserve to consider the balance sheet information of borrowers in determining whether to extend credit and in ensuring that any credit provided is used for an appropriate purpose. Questionable behavior might lead to follow-up discussions with the borrower concerning their circumstances at the time of borrowing and to counseling if their borrowing is deemed to have been inappropriate.

As noted above, there is usually little or no administrative burden on primary credit borrowers, and the FR 2046 data will usually not be collected from them. However, the FR 2046 data may be required from a primary credit borrower in very unusual circumstances, such as frequent borrowing or if there is information to suggest that undue use is being made of the credit. In these cases, information on “federal funds sold and purchased” (including resale and repurchase agreements, respectively) would be important in identifying situations in which an institution might be attempting to substitute borrowing at the discount window for its normal market sources of funding. In addition, information on total assets, loans, deposits, and securities could be used to assess the borrower’s funding need or use of the credit. Because primary credit is extended for very short terms, daily data are necessary to capture the borrower’s balance sheet trends.

The FR 2046 data are not routinely collected from secondary credit borrowers if adequate information on the need for funding and the reason for borrowing from the Federal Reserve is available from other sources, such as direct contacts with banking regulators. However, because secondary credit borrowers are not in generally sound condition, they are subject to

³ S-Letter 2487, March 1985.

⁴ SCRRM is a subcommittee of the Conference of Presidents' Committee on Credit, Reserves, and Risk Management.

administration by the Federal Reserve (for example, if the loan is requested for a reason other than to cover an unexpected overdraft, the borrower is not allowed to increase its net exposure to other depository institutions—such as by selling federal funds—without permission). The FR 2046 data may be required if the Federal Reserve becomes concerned about the frequency or size of the institution's borrowing. The use of the data would be very similar to that described for primary credit. Secondary credit is generally extended for one day at a time; therefore, daily data would be necessary to capture the borrower's balance sheet trends.

It is expected that the FR 2046 data will be collected primarily from seasonal credit borrowers. Information on federal funds sold and purchased is important to guard against situations in which a bank might be using seasonal credit inappropriately. Under the terms of the program, seasonal borrowers may be net sellers of federal funds while borrowing at the discount window, as long as this pattern is consistent with their normal operating practices. The information obtained on federal funds sold and purchased on the FR 2046 is used by the Federal Reserve to assess whether a seasonal borrower's position in the federal funds market is "normal."

Similarly, information on seasonal borrowers' total assets, loans, securities and deposits is used to monitor whether loans advanced at the discount window are being used for the intended purpose. Total loans and total deposits are used in monitoring an institution's net funds availability (defined as total deposits less total loans) during the period of borrowing. Historical data on net funds availability is a key variable used in establishing an institution's seasonal credit line. The Federal Reserve monitors net funds availability during the period of borrowing to ensure that an institution's actual funding need during the year is consistent with its seasonal credit line. In addition, information on total assets, loans, and securities is used to ensure that seasonal credit is used appropriately. Many seasonal borrowers, for example, exhibit a marked increase in their loan portfolios over the first three quarters in each year reflecting increased agricultural credit demands. Later in the year, loan demand at these banks subsides as farmers sell their crops and repay their outstanding bank loans with the proceeds. Deviations from this typical pattern might indicate that seasonal credit was being used inappropriately. For example, if a seasonal borrower's total loans increased only modestly during the year while its securities portfolio expanded sharply, the Federal Reserve might contact the institution to verify whether it remained eligible for the seasonal credit program.

Seasonal credit is typically extended over lengthy periods, and the borrower's funding need is expected to change slowly over the term of the borrowing. Therefore, Wednesday-only data would provide an adequate picture of a borrower's balance sheet trends. In cases where seasonal credit is extended to institutions in marginal financial condition, increased monitoring of the borrower is required, and daily data may be collected at the Federal Reserve's discretion.

Description of Information Collection

Table 1 lists the data elements that are reported on the FR 2046. Data are reported weekly for each two-week period in which borrowing is outstanding. All data are reported for the borrower's domestic offices only and reported in thousands of dollars. The data elements include the amounts of total securities, federal funds sold and securities purchased under agreements to resell, total loans (gross of allowance for loan and lease losses and allocated transfer risk

reserve), total assets, total deposits, and federal funds purchased and securities sold under agreements to repurchase.

Primary or secondary credit borrowers report daily data. A borrower need not supply deposit data on the FR 2046 when it already files such information weekly on the Report of Transaction Deposits, Other Deposits and Vault Cash (FR 2900; OMB No. 7100-0087). For these respondents, the two-week reporting period would correspond to their reserve maintenance period.

Seasonal credit borrowers report Wednesday-only data. Depositories that already report total securities, federal funds sold and resale agreements, total loans, and total assets weekly on one of the "bank credit" reports⁵ or total deposits weekly on the FR 2900 do not need to provide these data on the FR 2046.⁶

⁵ The bank credit reports are the Weekly Report of Assets and Liabilities for Large Banks (FR 2416; OMB No. 7100-0075), the Weekly Report of Selected Assets (FR 2644; OMB No. 7100-0075), and the Weekly Report of Assets and Liabilities for Large Branches and Agencies of Foreign Banks (FR 2069; OMB No. 7100-0030). Total loans on the FR 2046 are defined as net of unearned income. The FR 2644 does not collect an item for unearned income that could not be netted out of the various categories of loans. Therefore total loans for FR 2644 respondents will be gross of some unearned income. This discrepancy is acceptable.

⁶ The condition reports and the FR 2900 employ somewhat different concepts of total deposits. Either concept is adequate for the purpose of monitoring discount window borrowers. Availability of deposit data for discount window borrowers that file the weekly FR 2900 would be delayed several days because of the reporting schedule for the FR 2900.

Table 1: Data Items on the Proposed FR 2046

Type of Credit	Data Elements	Days of Report Period for which Data are Provided	Qualifications	Definition Source *
Primary or Secondary	Total securities	All	None	Call Report/TFR/NCUA 5300
	Federal funds sold and resale agreements	All	None	Call Report
	Total loans	All	None	Call Report/TFR/NCUA 5300
	Total assets	All	None	Call Report/TFR/NCUA 5300
	Total deposits	All	When not reported weekly on FR 2900	FR 2900 or Call Report/TFR/NCUA 5300
	Federal funds purchased and repurchase agreements	All	None	Call Report
Seasonal	Total securities	Wednesday only	When not reported on a bank credit report	Call Report/TFR/NCUA 5300
	Federal funds sold and resale agreements	Wednesday only	When not reported on a bank credit report	Call Report
	Total loans	Wednesday only	When not reported on a bank credit report	Call Report/TFR/NCUA 5300
	Total assets	Wednesday only	When not reported on a bank credit report	Call Report/TFR/NCUA 5300
	Total deposits	Wednesday only	When not reported weekly on FR 2900	FR 2900 or Call Report/TFR/NCUA 5300
	Federal funds purchased and repurchase agreements	Wednesday only	None	Call Report
<p>* source of definition:</p> <p>Call Report = U.S. commercial bank Consolidated Reports of Condition and Income (FFIEC 031 & 041; OMB No. 7100-0036) <i>or</i> Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032)</p> <p>TFR = Thrift Financial Report (OTS Form 1313; OMB No. 1550-0023)</p> <p>NCUA 5300 = NCUA 5300; OMB No. 3133-0004</p>				

Item Content

In general, the definitions of items reported on the FR 2046 correspond closely with item definitions employed in the Call Reports for each type of institution, as shown in table 2.⁷

Definitions for federal funds purchased/repurchase agreements and federal funds sold/resale agreements vary considerably among the Call Reports. The FR 2046 definitions for these items coincide with those on the commercial bank Call Report (domestic) for "Federal funds sold and securities purchased under agreements to resell" and "Federal funds purchased and securities sold under agreements to repurchase." Corresponding items on the FFIEC 031 includes: Schedule RC—Balance Sheet, items 3a and 14a, plus Schedule RC-H—Selected Balance Sheet Items for Domestic Offices, items 3 and 4. Corresponding items on the FFIEC 041 includes: Schedule RC — Balance Sheet, items 3 and 14.

Most institutions that borrow at the discount window are banks and hence file the bank Call Report. Thus, these definitions should be familiar to the vast majority of discount window borrowers. Moreover, the Call Report definitions are adequate for discount window monitoring purposes; they include federal funds purchased and sold on an overnight basis or rolled over daily under a continuing contract and also include most overnight and term funding under repurchase agreements. Thus, this definition includes instruments that are likely alternative market sources of short-term funds for most discount window borrowers.

⁷ For U.S. branches and agencies of foreign banks that file a consolidated condition report, it is likely that discount officers would request FR 2046 data for the particular branch that borrows.

Table 2: Definitions of Securities, Loans, Assets, and Deposits on the Proposed FR 2046

FR 2046 item	U.S. commercial banks and others:		U.S. branches and agencies of foreign banks:	Savings and loan associations:	Credit unions:
	FFIEC 031	FFIEC 041	FFIEC 002 ⁸	TFR	NCUA 5300
Total securities	RC—Balance Sheet, Domestic office portion of: + Held-to-maturity securities, item 2.a + Available-for-sale securities, item 2.b + Trading assets, item 5	Schedule RC—Balance Sheet + Held-to-maturity securities, item 2.a + Available-for-sale securities, item 2.b + Trading assets, item 5	Schedule RAL—Assets and Liabilities + U.S. Treasury securities, item 1.b(1) + U.S. government agency obligations, item 1.b(2) + Securities of foreign governments and official institutions, item 1.c(1), Col. A minus Col. B + Mortgage-backed securities issued or guaranteed by U.S. Govt. agencies, item 1.c(2)a, Col. A minus Col. B + Other mortgage-backed securities, item 1.c(2)b, Col. A minus Col. B + Other asset-backed securities, Item 1.c(3), Column A minus Column B + All other bonds, notes, debentures, and corporate stock (including state and local securities), Item 1.c(4), Column A minus Column B + Trading assets, U.S. Treasury and Agency securities, item 1.f(1), Col. A minus Col. B + Other trading assets, item 1.f(2), Col. A minus Col. B	Schedule SC—Consolidated Statement of Condition + U.S. government and agency securities, item SC130 + Equity securities subject to SFAS No. 115 ⁹ , item SC140 + State and municipal obligations, item SC180 + Securities backed by nonmortgage loans, item SC182 + Other investment securities, item SC185 + Mortgage pool securities, item SC22 + General valuation allowances, item SC229	Schedule C—Investments, Classification of Investments, Cash on Deposit and Cash Equivalents (SFAS 115 Investments) +Held-to-maturity, item 9, column E +Available-for-sale, item 10, column E +Trading, item 11, column E
Total loans	Schedule RC-C—Loans and Lease Financing Receivables, Part I. Total loans and leases, net of unearned income, Column B, item 12	Schedule RC-C—Loans and Lease Financing Receivables, Part I. Total loans and leases, net of unearned income, Column B, item 12	Schedule RAL—Assets and Liabilities, Loans and leases, net of unearned income, item 1.e, Col. A minus Col. B	Schedule SC—Consolidated Statement of Condition + Mortgage loans, item SC26 + Allowance for loan and lease losses, item SC283 + Nonmortgage loans, item SC31 + Allowance for loan and lease losses, item SC357	Statement of Financial Condition, item 22, amount

⁸ Excluding transactions of the reporting institution's own International Banking Facilities (IBFs) with nonrelated parties and related depository institutions

⁹ "Accounting for Certain Investments in Debt and Equity Securities"

Total assets	Schedule RC-H— Selected Balance Sheet Items for Domestic Offices + Net due <i>from</i> own foreign offices, Edge and agreement subsidiaries, and IBFs, item 6 + Total assets (excludes net due from own foreign offices, Edge and agreement subsidiaries, and IBFs), item 8	Schedule RC—Balance Sheet, item 12	Schedule RAL—Assets and Liabilities, item 3, Col. A minus Col. B	Schedule SC—Consolidated Statement of Condition, item SC60	Statement of Financial Condition, item 29, amount
Total deposits	Schedule RC—Balance Sheet, Deposits in domestic offices, item 13.a	Schedule RC—Balance Sheet, Deposits in domestic offices, item 13.a	Schedule RAL—Assets and Liabilities, Total deposits and credit balances, item 4.a, Col. A minus Col. B	Schedule SC—Consolidated Statement of Condition, Deposits, item SC710	Liabilities, Shares, and Equity, Total shares and deposits, item 7, amount

Reporting Panel

The reporting panel for the FR 2046 changes from week to week. Any depository institution that maintains reservable deposits is eligible to borrow at the discount window. Approximately 19,000 depositories are eligible to borrow at the discount window including domestic commercial banks, savings banks, savings and loan associations, credit unions, U.S. branches and agencies of foreign banks, and others. In any given week, only a relatively small number of depositories turn to the discount window. The number of primary credit borrowers during a typical week falls in a range between 5 and 25, and there were a total of four secondary credit borrowers in 2003.¹⁰ The number of seasonal credit borrowers in any given week varies considerably over the year, but is generally less than 300 even during peak borrowing months, and in the past three years has been much lower than that. As noted above, the FR 2046 data are usually not collected from primary credit borrowers and are not routinely collected from secondary credit borrowers if necessary information is available from other sources.

Frequency

The FR 2046 collects data for any two-week reporting period ending on Wednesday in which borrowing was outstanding on one or more days. The data are typically collected after the fact in one-week increments. For example, if an institution borrows on each day of a two-week reporting period, the Federal Reserve collects FR 2046 data twice: once to obtain data for the first week of the reporting period and a second time to obtain data for the second week of the

¹⁰ Primary and secondary credit were introduced in 2003, so earlier data are not available.

reporting period. If an institution borrowed only during the first week of the maintenance period (or only during the second week), FR 2046 data are still collected for both weeks of that maintenance period. The Federal Reserve indicates the dates for which FR 2046 data are required. For a weekly FR 2900 respondent, this period coincides with its reserve maintenance period.

For primary and secondary borrowers, the FR 2046 collects daily (business day) data. For seasonal credit borrowers, the FR 2046 collects weekly (Wednesday) data. The Federal Reserve may collect daily data from seasonal borrowers in questionable financial condition.

Time Schedule for Information Collection

Depository institutions are required to file the FR 2046 data by the Wednesday following the end of the reporting week. Generally, the Federal Reserve receives the data via hard copy mailed or faxed to the discount window or statistics department.

According to the Federal Reserve's Planning and Control System Activity 3632, "Loans to Depository Institutions and Others," Reserve Bank staff are responsible for retention of files containing data relative to credit arrangements and appropriateness of borrowing (e.g., correspondence including documentation of extraordinary lending arrangements) for institutions using the discount window including undercapitalized or critically undercapitalized institutions for ten years.

Legal Status

The Board's Legal Division has determined that sections 10B, 11(a)(2), and 11(i) of the Federal Reserve Act [12 U.S.C. §§ 347b(a) and 248(a)(2) and (i)] authorize the Board to require the report. Individual respondent data are regarded as confidential under the Freedom of Information Act [5 U.S.C. §552(b)(4)].

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Estimates of Respondent Burden

The current annual reporting burden of the FR 2046 is estimated to be 575 hours, based on 2003 discount window borrowing activity. Because the FR 2046 is event-generated, it is not possible to predict exactly how many times the data will be filed in a given year. As noted above, the FR 2046 data are usually not collected from primary credit borrowers and are not routinely collected from secondary credit borrowers if necessary information is available from other sources. The total annual burden of this report represents less than 1 percent of total Federal Reserve System annual reporting burden.

<i>Type of credit</i>	<i>Estimated number of borrowers</i>	<i>Estimated average number of reporting weeks</i>	<i>Estimated average hours per reporting week</i>	<i>Estimated annual burden hours</i>
Primary and Secondary Credit	1	2	0.75	1.5
Seasonal Credit	127	18	0.25	573.5 ¹¹
<i>Total</i>	128			575

Based on an hourly rate of \$20, the estimated annual cost to the public is \$11,500.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The ongoing annual cost of the FR 2046 is estimated to be \$40,107, based on an estimate of 20 minutes of staff time per filed report, plus 4 hours per Reserve Bank for biweekly processing (including panel maintenance, report generation, and report analysis), at \$20 per hour. The data are not subject to extensive editing or other manipulation and are not submitted to the Board of Governors.

¹¹ Includes one borrower in marginal financial condition reporting daily data for two weeks (0.75 hours per week).